

CITY OF BATTLE CREEK
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2009

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CITY OF BATTLE CREEK

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Lloyd Holmes	Mayor	January, 2010
Lonnie Bennigsdorf	Council Member	January, 2010
Judy Schau	Council Member	January, 2010
Joe Sohm	Council Member	January, 2010
Ken Hanshaw	Council Member	January, 2012
Jeanette Holmes	Council Member	January, 2012
Diane Lansink	Clerk/Treasurer	Indefinite
Matt Forristal	Attorney	Indefinite

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.
RICHARD R. MOORE, C.P.A.
WESLEY E. STILLE, C.P.A. (RETIRED)
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W.J. HUNZELMAN, C.P.A. 1921-1997

1100 WEST MILWAUKEE
STORM LAKE, IOWA 50588
712-732-3653
FAX 712-732-3662
info@hpcocpa.com

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
Battle Creek, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Battle Creek, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2008.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2008, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Battle Creek, as of June 30, 2009, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2010 on our consideration of City of Battle Creek's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Budgetary comparison information on pages 17 through 18 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

City of Battle Creek, Iowa, has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Battle Creek's basic financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

March 23, 2010

Hungelman, Putzier & Co.

CITY OF BATTLE CREEK
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

Exhibit A

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:						
Governmental activities:						
Public safety	\$ 267,613	\$ 58,387	\$ 47,469	\$ (161,757)	\$ -	\$ (161,757)
Public works	56,956	-	61,647	4,691	-	4,691
Culture and recreation	24,525	-	4,734	(19,791)	-	(19,791)
Community and economic development	12,055	-	-	(12,055)	-	(12,055)
General government	18,183	1,813	2,919	(13,451)	-	(13,451)
Total governmental activities	<u>379,332</u>	<u>60,200</u>	<u>116,769</u>	<u>(202,363)</u>	<u>-</u>	<u>(202,363)</u>
Business type activities:						
Water	84,948	68,476	-	-	(16,472)	(16,472)
Sewer	54,550	59,313	-	-	4,763	4,763
Garbage	69,467	64,256	-	-	(5,211)	(5,211)
Lagoon	11,037	20,503	-	-	9,466	9,466
Total business type activities	<u>220,002</u>	<u>212,548</u>	<u>-</u>	<u>-</u>	<u>(7,454)</u>	<u>(7,454)</u>
Total	<u>\$ 599,334</u>	<u>\$ 272,748</u>	<u>\$ 116,769</u>	<u>(202,363)</u>	<u>(7,454)</u>	<u>(209,817)</u>
General Receipts:						
Property and other city tax levied for:						
General purposes				102,540	-	102,540
Tax increment financing				24,788	-	24,788
Utility franchise tax				787	-	787
Unrestricted interest on investments				7,555	1,765	9,320
Miscellaneous				3,882	-	3,882
Sale of assets				55,000	-	55,000
Total general receipts and transfers				<u>194,552</u>	<u>1,765</u>	<u>196,317</u>
Change in cash basis net assets				(7,811)	(5,689)	(13,500)
Cash basis net assets beginning of year				<u>258,736</u>	<u>291,694</u>	<u>550,430</u>
Cash basis net assets end of year				<u>\$ 250,925</u>	<u>\$ 286,005</u>	<u>\$ 536,930</u>

(Continued)

CITY OF BATTLE CREEK
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

Exhibit A
(Continued)

	<u>Program Receipts</u>			<u>Net (Disbursements) Receipts and Changes in Cash Basis Net Assets</u>	
	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Operating Grants, Contributions, and Restricted Interest</u>	<u>Governmental Activities</u>	<u>Business Type Activities</u>
Cash Basis Net Assets					<u>Total</u>
Restricted:					
Streets				\$ 24,452	\$ - \$ 24,452
Employee benefits				45,746	- 45,746
Tax increment purposes				14,873	- 14,873
Other purposes				200	- 200
Unrestricted				<u>165,654</u>	<u>286,005</u> 451,659
Total cash basis net assets				<u>\$ 250,925</u>	<u>\$ 286,005</u> \$ 536,930

See notes to financial statements.

CITY OF BATTLE CREEK
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

Exhibit B

	<u>Special Revenue</u>				
	<u>General</u>	<u>Road Use Tax</u>	<u>Employee Benefits</u>	<u>Nonmajor</u>	<u>Total</u>
Receipts:					
Property tax	\$ 98,141	\$ -	\$ 49	\$ 79	\$ 98,269
Tax increment financing	-	-	-	24,788	24,788
Other city tax	4,176	-	-	95	4,271
License and permits	1,813	-	-	-	1,813
Use of money and property	9,626	-	848	-	10,474
Intergovernmental	47,750	61,647	-	-	109,397
Charges for service	57,780	-	-	-	57,780
Miscellaneous	9,729	-	-	-	9,729
Total receipts	<u>229,015</u>	<u>61,647</u>	<u>897</u>	<u>24,962</u>	<u>316,521</u>
Disbursements:					
Operating:					
Public safety	267,613	-	-	-	267,613
Public works	-	54,805	2,151	-	56,956
Culture and recreation	22,317	-	2,086	122	24,525
Community and economic development	2,140	-	-	9,915	12,055
General government	17,448	-	735	-	18,183
Total disbursements	<u>309,518</u>	<u>54,805</u>	<u>4,972</u>	<u>10,037</u>	<u>379,332</u>
Excess (deficiency) of receipts over disbursements	(80,503)	6,842	(4,075)	14,925	(62,811)
Other financing sources:					
Sale of capital assets	<u>55,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>55,000</u>
Net change in cash balances	(25,503)	6,842	(4,075)	14,925	(7,811)
Cash balances beginning of year	<u>190,446</u>	<u>17,610</u>	<u>49,821</u>	<u>859</u>	<u>258,736</u>
Cash balances end of year	<u>\$ 164,943</u>	<u>\$ 24,452</u>	<u>\$ 45,746</u>	<u>\$ 15,784</u>	<u>\$ 250,925</u>
Cash Basis Fund Balances					
Unreserved:					
General fund	\$ 164,943	\$ -	\$ -	\$ -	\$ 164,943
Special revenue funds	-	24,452	45,746	15,073	85,271
Capital projects fund	-	-	-	711	711
Total cash basis fund balances	<u>\$ 164,943</u>	<u>\$ 24,452</u>	<u>\$ 45,746</u>	<u>\$ 15,784</u>	<u>\$ 250,925</u>

See notes to financial statements.

CITY OF BATTLE CREEK
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

Exhibit C

	<u>Enterprise Funds</u>				
	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Lagoon</u>	<u>Total</u>
Operating Receipts:					
Charges for service	\$ 67,087	\$ 59,313	\$ 64,256	\$ 20,503	\$ 211,159
Miscellaneous	<u>1,389</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,389</u>
Total operating receipts	68,476	59,313	64,256	20,503	212,548
Operating Disbursements:					
Business type activities	<u>84,948</u>	<u>54,550</u>	<u>69,467</u>	<u>39</u>	<u>209,004</u>
Excess (deficiency) of operating receipts over operating disbursements	<u>(16,472)</u>	<u>4,763</u>	<u>(5,211)</u>	<u>20,464</u>	<u>3,544</u>
Non-operating receipts (disbursements):					
Interest on investments	1,765	-	-	-	1,765
Debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,998)</u>	<u>(10,998)</u>
Net non-operating receipts (disbursements)	<u>1,765</u>	<u>-</u>	<u>-</u>	<u>(10,998)</u>	<u>(9,233)</u>
Net change in cash balances	(14,707)	4,763	(5,211)	9,466	(5,689)
Cash balances beginning of year	<u>142,372</u>	<u>46,321</u>	<u>36,729</u>	<u>66,272</u>	<u>291,694</u>
Cash balances end of year	<u>\$ 127,665</u>	<u>\$ 51,084</u>	<u>\$ 31,518</u>	<u>\$ 75,738</u>	<u>\$ 286,005</u>
Cash Basis Fund Balances					
Unreserved	<u>\$ 127,665</u>	<u>\$ 51,084</u>	<u>\$ 31,518</u>	<u>\$ 75,738</u>	<u>\$ 286,005</u>
Total cash basis fund balances	<u>\$ 127,665</u>	<u>\$ 51,084</u>	<u>\$ 31,518</u>	<u>\$ 75,738</u>	<u>\$ 286,005</u>

See notes to financial statements.

CITY OF BATTLE CREEK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Battle Creek is a political subdivision of the State of Iowa located in Ida County. It was first incorporated in 1880 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, general government services, and business type activities.

A. Reporting Entity

For financial reporting purposes, City of Battle Creek has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization, or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of or appoint members to: Ida County Assessor's Conference Board, Ida County E911 Board, and Ida County Emergency Management Commission.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

CITY OF BATTLE CREEK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - (Continued)

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the main operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges, and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Employee Benefits Fund is used to account for taxes received to be used solely for employee payroll taxes and health insurance.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's sanitary sewer system.

The Garbage Fund accounts for the operation and maintenance of the City's waste management system.

The Lagoon Fund accounts for the operation and maintenance of the City's waste water treatment system.

CITY OF BATTLE CREEK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus and Basis of Accounting

The City of Battle Creek maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the programs. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

2. CASH AND INVESTMENTS

The City's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement Number 3, as amended by Statement 40.

CITY OF BATTLE CREEK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

3. NOTES PAYABLE

Annual debt service requirements to maturity for revenue notes are as follows:

Year Ending June 30,	<u>Revenue Notes</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 7,000	\$ 3,480	\$ 10,480
2011	8,000	3,270	11,270
2012	8,000	3,030	11,030
2013	8,000	2,790	10,790
2014	8,000	2,550	10,550
2015-2019	46,000	8,850	54,850
2020-2022	<u>31,000</u>	<u>1,890</u>	<u>32,890</u>
Total	<u>\$ 116,000</u>	<u>\$ 25,860</u>	<u>\$ 141,860</u>

Revenue Notes – The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$170,000 in sewer revenue notes issued in October, 2002. Proceeds from the notes provided financing for construction of improvements to the sewer treatment plant. The notes are payable solely from sewer customer net receipts and are payable through 2022. The total principal and interest remaining to be paid on the notes is \$141,860. For the current year, principal and interest paid and total customer net receipts were \$10,998 and \$25,227 respectively.

The resolutions providing for the issuance of revenue bonds include the following provisions:

- a. The bonds and notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to a separate sewer revenue sinking fund for the purpose of making the principal and interest payments when due.

4. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.10% of their annual covered salary and the City is required to contribute 6.35% of annual covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contribution to IPERS for the year ended June 30, 2009 was \$5,849 equal to the required contributions for the year.

CITY OF BATTLE CREEK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

5. COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2009, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	<u>\$ 2,608</u>

This liability has been computed based on rates of pay in effect at June 30, 2009.

6. SERVICE AGREEMENTS

The City has an agreement with Ida County Sanitation for refuse collection and hauling of solid waste and recyclable materials. Payments under this agreement were \$51,377 for the year ended June 30, 2009.

7. RISK MANAGEMENT

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 577 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public official's liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2009 were \$18,023.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured by the Travelers Insurance Company.

CITY OF BATTLE CREEK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

7. RISK MANAGEMENT – (Continued)

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2009, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

8. DEVELOPMENT AGREEMENT

The City has entered into a development agreement with a local business located in the Battle Creek Urban Renewal Area to help facilitate the expansion of the company's facilities. The City agreed to rebate a percentage of the incremental taxes received by the City under Chapter 403.19 of the Code of Iowa for a period of ten years beginning June 1, 2009. The total amount that will be rebated over the ten year period under the development agreement shall not exceed \$100,000. During the year ended June 30, 2009, the City rebated \$9,915 of incremental taxes to the company.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BATTLE CREEK
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL
FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2009

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	<u>Total</u>	<u>Budgeted Amounts</u>		Final to Total Variance
				<u>Original</u>	<u>Final</u>	
Receipts:						
Property tax	\$ 98,364	\$ -	\$ 98,364	\$ 98,933	\$ 98,933	\$ (569)
Tax increment financing	24,788	-	24,788	24,546	24,546	242
Other city tax	4,176	-	4,176	4,271	4,271	(95)
Licenses and permits	1,813	-	1,813	1,375	1,375	438
Use of money and property	10,474	1,765	12,239	8,400	8,400	3,839
Intergovernmental	109,397	-	109,397	73,206	73,206	36,191
Charges for service	57,780	211,159	268,939	333,462	334,362	(65,423)
Miscellaneous	9,729	1,389	11,118	1,450	1,450	9,668
Total receipts	<u>316,521</u>	<u>214,313</u>	<u>530,834</u>	<u>545,643</u>	<u>546,543</u>	<u>(15,709)</u>
Disbursements:						
Public safety	267,613	-	267,613	167,758	270,738	3,125
Public works	56,956	-	56,956	70,364	70,364	13,408
Culture and recreation	24,525	-	24,525	36,589	36,589	12,064
Community and economic development	12,055	-	12,055	22,137	22,137	10,082
General government	18,183	-	18,183	23,055	23,055	4,872
Business type activities	-	220,002	220,002	221,925	221,925	1,923
Total disbursements	<u>379,332</u>	<u>220,002</u>	<u>599,334</u>	<u>541,828</u>	<u>644,808</u>	<u>45,474</u>
Excess (deficiency) of receipts over disbursements	(62,811)	(5,689)	(68,500)	3,815	(98,265)	29,765
Other financing sources, net	<u>55,000</u>	<u>-</u>	<u>55,000</u>	<u>-</u>	<u>-</u>	<u>55,000</u>
Excess (deficiency) of receipts and other financing sources over disbursements	(7,811)	(5,689)	(13,500)	3,815	(98,265)	84,765
Balances, beginning of year	<u>258,736</u>	<u>291,694</u>	<u>550,430</u>	<u>422,900</u>	<u>422,900</u>	<u>127,530</u>
Balances, end of year	<u>\$ 250,925</u>	<u>\$ 286,005</u>	<u>\$ 536,930</u>	<u>\$ 426,715</u>	<u>\$ 324,635</u>	<u>\$ 212,295</u>

See accompanying independent auditor's report.

CITY OF BATTLE CREEK
NOTES TO REQUIRED SUPPLEMENTARY
INFORMATION - BUDGETARY REPORTING
JUNE 30, 2009

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year ended June 30, 2009 a budget amendment increased budgeted disbursements by \$102,980. This budget amendment is reflected in the final budgeted amounts.

SUPPLEMENTARY INFORMATION

CITY OF BATTLE CREEK
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

Schedule 1

	<u>Special Revenue</u>		<u>Capital Projects</u>	<u>Total</u>
	<u>Emergency</u>	<u>Tax Increment Financing</u>		
Receipts:				
Property tax	\$ 79	\$ -	\$ -	\$ 79
Tax increment financing	-	24,788	-	24,788
Other city tax	95	-	-	95
Total receipts	174	24,788	-	24,962
Disbursements:				
Operating:				
Culture and recreation	-	-	122	122
Community and economic development	-	9,915	-	9,915
Total disbursements	-	9,915	122	10,037
Net change in cash balances	174	14,873	(122)	14,925
Cash balances beginning of year	26	-	833	859
Cash balances end of year	\$ 200	\$ 14,873	\$ 711	\$ 15,784
Cash Basis Fund Balances				
Unreserved:				
Special revenue	\$ 200	\$ 14,873	\$ -	\$ 15,073
Capital projects	-	-	711	711
Total cash basis fund balances	\$ 200	\$ 14,873	\$ 711	\$ 15,784

See accompanying independent auditor's report.

CITY OF BATTLE CREEK
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2009

Schedule 2

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning Of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End Of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
Revenue notes: Sewer	October 24, 2002	3.00%	<u>\$ 170,000</u>	<u>\$ 123,000</u>	<u>\$ -</u>	<u>\$ 7,000</u>	<u>\$ 116,000</u>	<u>\$ 3,690</u>	<u>-</u>

See accompanying independent auditor's report.

CITY OF BATTLE CREEK
NOTE MATURITIES
YEAR ENDED JUNE 30, 2009

Schedule 3

Revenue Notes
Sewer Improvement
Issued October 24, 2002

<u>Year Ending</u> <u>June 30,</u>	<u>Interest</u> <u>Rate</u>	<u>Amount</u>
2010	3.00%	\$ 7,000
2011	3.00	8,000
2012	3.00	8,000
2013	3.00	8,000
2014	3.00	8,000
2015	3.00	9,000
2016	3.00	9,000
2017	3.00	9,000
2018	3.00	9,000
2019	3.00	10,000
2020	3.00	10,000
2021	3.00	10,000
2022	3.00	<u>11,000</u>
		<u>\$ 116,000</u>

See accompanying independent auditor's report.

CITY OF BATTLE CREEK
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
AGENCY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

Schedule 4

Families for
Park
Equipment

Receipts	\$ 16,164
Disbursements	<u>694</u>
Net change in cash balances	15,470
Cash balances beginning of year	<u>3,994</u>
Cash balances end of year	<u>\$ 19,464</u>

See accompanying independent auditor's report.

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.
RICHARD R. MOORE, C.P.A.
WESLEY E. STILLE, C.P.A. (RETIRED)
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W.J. HUNZELMAN, C.P.A. 1921-1997

1100 WEST MILWAUKEE
STORM LAKE, IOWA 50588
712-732-3653
FAX 712-732-3662
info@hpcocpa.com

Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council
Battle Creek, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Battle Creek, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated March 23, 2010. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2008. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Battle Creek's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of City of Battle Creek's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Battle Creek's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of City of Battle Creek's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by City of Battle Creek's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered material weaknesses. However, of the significant deficiencies described above, we believe items I-A-09, I-C-09, and I-D-09 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Battle Creek's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Battle Creek's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of City of Battle Creek, and other parties to whom City of Battle Creek may report. This report is not intended to be and should not be used by anyone other than these specified parties.

March 23, 2010

Humphman, Pitzler & Co.

CITY OF BATTLE CREEK
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009

Part I: Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

I-A-09 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that checks and payroll preparation, and bank reconciliations are all handled by one individual.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider alternatives.

Conclusion - Response accepted.

I-B-09 Electronic Data Processing Systems - During our review of internal control, the existing control activities in the City's computer based systems were evaluated in order to determine that activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the City's computer based systems were noted:

The City does not have written policies for:

- Ensuring that only software licensed to the City is installed on computers.
- Personal use of computer equipment and software.

Also, the City does not have a disaster recovery plan.

Recommendation - The City should develop written policies addressing the above items in order to improve the City's control over computer based systems.

Response - We will develop written policies addressing the above items in order to improve the City's control over computer based systems.

Conclusion - Response accepted.

I-C-09 Reconciliation of Utility Billings, Collections, and Delinquencies - Utility billings, collections, and delinquent accounts were not reconciled throughout the year.

Recommendation - Procedures should be established to reconcile utility billings, collections, and delinquencies for each billing period. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response - Reconciliation of the utility billings, collections, and delinquencies will be implemented, and will be reviewed periodically by the Mayor.

Conclusion - Response accepted.

CITY OF BATTLE CREEK
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009

Part I: Findings Related to the Financial Statements: (Continued):

I-D-09 Ambulance, Fire Department, and Library Funds - The Ambulance, Fire Department, and Library currently maintain some accounts and records, including payroll, which are not controlled by the City Clerk. These are not separate non-profit corporations, but are departments of the City. Chapter 384.20 of the Iowa Code states in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose, by any city officer, employee, or other person, and which show the receipt, use, and disposition of all city property. Public moneys may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - These funds and records should be maintained by the City Clerk and any disbursements should be budgeted.

Response - Changes will be discussed and considered.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-09 Certified Budget - Disbursements during the year ended June 30, 2009 did not exceed the amounts budgeted. However, disbursements exceeded the amount budgeted in the Public Safety function prior to the budget amendment. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - An effort will be made in the future to amend the budget before disbursements exceed the amounts budgeted.

Conclusion - Response accepted.

II-B-09 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-09 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-09 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Dean Lansink, spouse of clerk, owner of Lansink Repair and Hardware	Repairs, maintenance, and tree removal	\$2,140

In accordance with chapter 362.5(11) of the Code of Iowa, the transactions do not appear to be a conflict of interest since total transactions were less than \$2,500 during the fiscal year.

CITY OF BATTLE CREEK
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009

Part II: Other Findings Related to Required Statutory Reporting: (Continued)

- II-E-09 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-09 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-G-09 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the City's investment policy were noted.
- II-H-09 Revenue Notes - The City has established the sinking account required by the sewer revenue note resolution.
- II-I-09 Excess Balances - The following funds have balances at June 30, 2009, which are in excess of one year's expenditures:

Special Revenue - Employee Benefits
 - Tax Increment Financing

Recommendation - While it appears that these funds may have excessive balances, this can usually be justified if the City has a specific plan for future expenditures. The City should consider the necessity of maintaining these substantial balances and, where financially feasible, consider reducing the balances in an orderly manner through revenue reductions.

Response - Balances will be applied to future expenditures.

Conclusion - Response accepted.

- II-J-09 City Code of Ordinances - The City has not compiled the City ordinances within the past five years.

Recommendation - Chapter 380.8 of the Code of Iowa states in part, "At least once every five years, a city shall compile a Code of ordinances containing all City ordinances in effect, except grade ordinances, bond ordinances, zoning ordinances, and ordinances vacating streets and alleys." The City should compile the City ordinances as required.

Response - Codification will be scheduled.

Conclusion - Response accepted.

- II-K-09 Emergency Fund Levy - Although the special revenue fund has been established to account for this levy, most of the taxes received during the year ending June 30, 2009 were recorded in the General fund.

Recommendation - The City should record all funds received from this levy in the proper special revenue fund.

Response - Future revenue will be recorded in a special reserve fund.

Conclusion - Response accepted.